



Investment Office

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December 15, 2008

AGENDA ITEM 3a

TO: MEMBERS OF THE INVESTMENT POLICY SUBCOMMITTEE

- I. SUBJECT:** Adoption of Policy on Divestment
- II. PROGRAM:** Total Fund
- III. RECOMMENDATION:** Recommend to the Investment Committee adoption of the Statement of Investment Policy Regarding Divestment

IV. ANALYSIS:

At the May 2008 Investment Committee meeting, Staff was asked to bring forward a proposed policy regarding divestment. At the October 2008 Policy Subcommittee meeting, Staff presented a memorandum written by Pension Consulting Alliance (PCA) that outlined three options/approaches for a divestment policy. Staff recommended that the Subcommittee adopt a policy that requires CalPERS to divest or underweight an investment to the extent CalPERS concludes that continued ownership of the investment is no longer prudent, or, in the case of a new investment, would be imprudent. Staff also recommended including a statement that CalPERS generally favors an approach of constructive engagement rather than divestment.

Based on direction from the Subcommittee, the CalPERS Legal Office and fiduciary counsel have prepared the proposed policy language (Attachment 1). Wilshire Associates and PCA have reviewed the proposed policy language and their opinion letters are included as Attachments 2 and 3, respectively.

V. STRATEGIC PLAN:

This item supports Goal IX: achieve long term, sustainable, risk-adjusted returns.

VI. RESULTS/COSTS:

There are no costs associated with this item.

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General Counsel
Legal Office

Anne Stausboll
Interim Chief Investment Officer